**4.2 Trade and the global economy**

**1 Specialisation and comparative advantage**

a) Benefits and costs of specialisation and trade in the international context.

b) The theory of comparative advantage:

• the distinction between absolute and comparative advantage

• assumptions underlying the theory of comparative advantage

• limitations of the theory of comparative advantage.

**2 Patterns and volume of world trade**

a) Factors influencing patterns of trade between countries and causes of changes in these patterns:

• impact of emerging economies

• changes in comparative advantage

• growth in trading blocs and bilateral trading agreements

• changes in relative exchange rates

• changes in protectionism between countries.

b) Changes in trade flows between countries, and the reasons for these changes.

**3 Terms of trade**

a) Understanding and calculation of the terms of trade.

b) Factors influencing a country’s terms of trade, changes in:

• relative inflation rates

• relative productivity rates

• relative labour costs

• the exchange rate

• the prices of imports and exports.

c) The impact of changes in a country’s terms of trade on:

• export revenues

• living standards

• balance of trade.

**4 Trade liberalisation and trading blocs**

a) The role of the World Trade Organization (WTO) in trade liberalisation.

b) Types of trading blocs:

• free-trade areas

• customs unions

• common markets

• economic and monetary unions.

c) Costs and benefits of membership of a trading bloc:

• trade creation

• trade diversion

• costs and prices

• economies of scale

• transaction costs

• movement of factors of production.

d) Possible conflicts between trading blocs and the WTO.

**5 Restrictions on free trade**

a) Reasons for restrictions on free trade:

• to protect infant and geriatric industries

• to protect domestic industries and employment

• to protect national security

• to prevent dumping

• to correct a deficit on the current account of the balance of payments

• to raise revenue.

b) Types of restrictions on free trade:

• tariffs

• quotas

• non-tariff barriers

• subsidies to domestic producers.

c) Impact of protectionist policies on:

• consumers

• producers

• governments

• living standards

• equality.